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ABSTRACT

This paper contains some impressions regarding financial incentives for business-education partnerships. The first topic is the potential for federal tax deductions. A proposed net tax credit plan that was not adopted, the principle of charitable tax deductions for corporate gifts, and an education tax break bill are discussed. The next topic is job training. Cash reimbursement to companies under on-the-job training programs, company purchase of training from secondary and postsecondary schools, and an off-site employment office run by federal funds are considered. Corporate and foundation giving is examined in the next section. Legislation in Indiana and Illinois that acts as a financial incentive is briefly described. The lack of any such legislation in Ohio is then addressed. (YLB)

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by
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The Bottom Line: Business and Education Partnerships

As Paul Miller, a vice president of the Council for Aid to Education, put it: "Underwriting American education is not merely a charitable contribution -- it's an investment."

That view -- the long view -- is echoed repeatedly in readings and conversations on financial incentives for business-education partnerships. The fact is, there is little evidence that short-term economic advantages such as tax breaks are significant motivators of business to become partners in the education process.

Dr. Diana Rigden of the New York-based Council, which tracks gifts made through corporate foundations or contributions budgets, said, "(You) probably should look on this a little less cynically. Business is doing this because it's scared about the work force. It's worried about the office and factory of the future."

Madeleine Hemmings, executive director of the National Association of State Directors, Washington, D.C., said she knew of "no cash benefits." She said incentives could be created at the state level, but she did not know of any states that were doing so. To assess the possibilities in a comprehensive fashion would require a specialized research effort -- perhaps a survey -- that properly would be the subject of its own grant. Nonetheless, the following are some impressions gleaned from further reading and talk with experts across the country:

Federal Tax Deductions

Twenty years ago, the American Association of Presidents of Independent Colleges and Universities proposed a net tax credit plan to help finance higher education. The association calculated that giving every taxpayer a $100 credit and every corporation a $5,000 credit for a gift of the same amount to education would provide the same funds for education that the administration proposed to spend in conventional support.

The proposal worked this way. All taxpayers who cared to could send a check for $100 to the college of their choice. They could subtract that $100 from the federal tax they owed and attach a receipt from the college to their returns. The approach promised a couple of advantages. First, low overhead compared with the cost of the bureaucracy required to administer the existing system of grant awards. Second, the colleges could spend the money the way they wished instead of having to stay within the requirements of grants. Third, vocational-technical and other smaller schools would have a chance to compete because people would tend to favor nearby institutions or ones they had attended.

Needless to say, the approach never was adopted. And Gary Moore, director of research at the National Alliance for Business (NAB), observed that today federal tax incentives of any kind are restricted under the new tax code. Moore recalled that Apple Computer sought a tax credit last year for donating computers to schools. Under the proposed amendment to the trade bill, firms that donated equipment, sent instructors to teach at vocational schools or provided training opportunities for vocational education staff would have been eligible for the credit. But he said Congress "walked away from it" in this era of chronic budget deficits.

The principle of charitable tax deductions for corporate gifts is well established. The Council's Rigden recalled recently that when RJR-Nabisco moved corporate headquarters to Atlanta, it donated its entire headquarters building to a North Carolina school system for the deduction. Moore noted that IBM has been donating typewriters to secretarial schools for 40 years; today, it donates computers to black colleges. B. Dalton donates books in support of literacy education. In fact, gifts to benefit education have received especially favorable federal tax treatment since about 1981, when the Reagan administration began promoting private-sector initiatives to replace big-government intervention. Gifts to most organizations may be deducted on a cost basis. But partly to boost gifts of high-technology equipment to schools, gifts to educational institutions may be deducted at cost plus half the unrealized depreciation.

But Moore added that while business may claim a deduction for a charitable contribution, the IRS may question the deduction if it can be shown that the gift was made primarily to obtain a financial benefit for the company. Another way to achieve the same effect on the bottom line is to write off a gift

of obsolete equipment (that still might be useful in a classroom) or unsold inventory as a business expense. Sometimes, the distinction between charity and expense is difficult to make. Jon Pratt, director of the Philanthropy Project in Minneapolis, asks whether Burger King's Crew Education Assistance Program is a scholarship fund eligible for a tax deduction or a personnel benefit. The program offers up to $2,000 of continuing education funds to high school graduates in its work force. He writes that by distributing the money through a competitive, third-party selection process, the fund could qualify for a charitable deduction. One example of such a third party is the Citizens Scholarship Foundation of America, which has provided such services for 150 companies, including Chrysler and General Mills. Hemmings said that the state directors' battery of lawyers could help corporations determine whether gifts qualified as charity or show firms how even gifts of employees' time (salary, travel expenses) could be deductible.

Helen White of NAB said the only education-tax-break bill before Congress in this session is Rep. Charles Rangel's HR815. That measure would amend the tax code to give businesses a credit of up to 20 percent for contributions of cash, equipment or services that benefit school dropouts in job-training programs. The bill is modeled on the existing Targeted Jobs Tax Credit program. Under that program, employers can obtain a credit of up to $6,000 for each employee member of a group Congress has singled out for special attention. The targeted groups include the handicapped, the economically disadvantaged, welfare recipients and others. No money is paid to the employer; businesses simply pay less in taxes.

Pat Choate, director of TRW's Office of Policy Analysis, has suggested skewing business tax breaks away from physical investments in education to human ones. A credit could be offered to business for money spent on improving worker skills. Or a credit could be given to individuals for investments they make on their own to upgrade their training or education. Or employer and employee could be permitted to contribute to tax-exempt individual training accounts similar to Individual Retirement Accounts. But none of these proposals has become law.

Job Training

Under on-the-job-training programs, employers teach specialized skills and are reimbursed up to half the wage they pay employees during a training period. The companies are reimbursed in cash. The money might be funded through the federal Job Training Partnership Act, a state agency, or a welfare-to-work program under Health and Human Services.

Moore, of NAB, said companies may find that it makes dollars and sense to purchase training from secondary or post-secondary schools. Community colleges and vocational-technical schools have found that training

may be customized profitably for individual companies or industries. In Orlando, a high-tech high school trains employees of Disney World in electronics and other skills. In such a case, the employer's cost of training is an expense, which the company can employ to reduce its tax exposure. To a large company, Moore said, these programs can involve thousands or even millions of dollars.

Sometimes, federal agencies will spend tax dollars to help businesses keep expenses down. In Monroe County, the Occupational Development Center (of the South Central Private Industry Corporation) spends federal funds to save employers expensive mistakes in hiring. Manager Kent Kress said the center serves as an off-site employment office for businesses that want to take advantage of the free service. When Otis Elevator moved its escalator operation from Canada to Monroe County, it sought hundreds of workers for $10-an-hour jobs. The center's pre-screening service found 300 employes, matching them to skills required and wages needed. The center even dealt with such details as day care and transportation to work. Schlegel Corp., a manufacturer of auto weatherstripping, and Schulte Corp., a maker of wire products, have hired nearly 200 employees through the service. Kress said that in the case of about one worker in three, the employer is even reimbursed with JTPA funds for 50 percent of the worker's wage while that worker is trained on the job. Workers might be eligible because they had been receiving federal assistance or because they had been dislocated from previous employment.

Kress said the center even operates a kind of cost-free "head hunter" service. He said he has searched Vincennes University and other sources for highly skilled hydraulics or electronics specialists for RCA. Taking that concept a step further, the center has established training programs to fill employers' sometimes quite specific needs. The center has worked with Hoadley Quarries and Bybee Stone Co. to train stone cutters, paying the firms "tuition" just as the center might purchase training at a university or college. Kress said the center is working with area printers to establish a training program to fill the need for employees who can operate sophisticated multi-color presses and other equipment.

Corporate, Foundation Giving

Tim Seiler, acting director of the Indianapolis office of the Indiana University Foundation, said foundations are like corporations in their reasons for supporting education, vocational or other. "Education turns out skilled people with training." He said the single best source on foundation spending is the Foundation Directory, put out by the Council for Aid to Education. The directory is always two years behind, but it contains a statement of foundations' areas of interest and the total of their actual gifts for the most recent year for which figures are available.

In the summer of 1987, the Council developed a special advertising section for national magazines on why corporations give billions to colleges and universities. Basically, the rationales fell into four categories:

- Present and future human resources. "For the individual manager, it's a question of his or her own work force just a few years down the road."
- Research. "More companies are providing regular assistance to encourage research in a field of particular interest to management." The section also noted that educational institutions receive on average 40 percent of all corporate gifts. But industrial concerns, which have an understandable interest in the production of engineers and scientists, make an average of 50 percent of their gifts to colleges and schools.
- Public service.
- Employee quality of life. Some corporations view the education profile of the population as an indicator of the health of the environment in which business will prosper or fail.

Sometimes, no financial incentive is required. All that is needed is a new approach designed to save everybody time and effort. In New Jersey, college presidents told the AT&T Foundation of two continuing funding needs -- dollars for equipment to go in undergraduate science labs and "flexible" funds to support good faculty ideas as they arose. Anne Alexander, foundation vice president for education programs, writes that AT&T responded with a grants program that provided unrestricted funds for purchases of equipment based on science enrollment and support for faculty research and humanities curriculum development. Alexander said that what distinguished the New Jersey approach was that the colleges banded together to approach the foundation. The foundation, which could not make significant gifts to the schools' fund-raising campaigns individually, was able to support teachers in the classroom and creativity among faculty members generally. She noted that the joint approach saved time for foundation staff and the colleges' development officers.

Indiana

In Indiana, corporations and individuals can claim a state tax credit of up to 50 percent of their contributions to eligible colleges and universities. The tax break is limited to $1,000 for corporations, $100 to individuals and $200 to individuals filing jointly. The list of 47 eligible institutions includes the Indiana Vocational Technical College.

Illinois

Under the VIP (Vocational Instruction Practicum) program, appropriated state funds are used to pay the salaries of vocational education teachers who work in industry during the summer. But the point is not to provide industry with a cheap source of labor. It is to ensure that real-world experience informs vocational education in the classroom. Jerry O'Hare, a contract administrator in the Vocational Education Program

Improvement Section (of the state Department of Education), said that the program is not promoted as summer jobs. He said that the educators are paid only $250 a week for up to eight weeks. That means the program amounts to a learning experience and is valuable as a vehicle to help ensure that teachers are continually exposed to advances in high-tech equipment and processes in the workplace. He said 900-1,000 teachers from secondary and post-secondary schools take part each summer. Vocational school counselors and administrators also are eligible. The teachers are expected to put in an eight-hour day shadowing employees. The goal is to expose the teachers to a variety of job classifications.

Ohio

Sonia Price, associate director of the State Department of Education, Vocational, said she couldn't think of a single piece of legislation in Ohio that could be considered a financial incentive. She said that many businesses are joining partnerships, donating equipment, creating internships, etc. But she said they are doing it because educators and others -- locally -- have convinced them it is in their best interest.

Conclusion

At the federal level, even if George Bush turns out to be an "education president," there is little prospect of new tax breaks or other incentives that would have short-term impact on a company's bottom line. As long as the legislative branch finds it politically impossible to increase gaps in the nation's social safety net, the largest portion of the budget, it also is unlikely to approve any measures that would reduce income from corporate taxes significantly. At the state level, the governor is a Democrat whose conservative fiscal philosophy rivals that of Republican leaders. State vocational education officials might seek to extend the college tax credit to contributions to adult or continuing education institutions. But in an Indiana era of austerity, it is unlikely that the executive branch will approve any initiatives that would reduce corporate tax revenue significantly.

Precisely because industry's willingness to join education partnerships is not tied primarily to short-term economic gains, any incentive that could hope to increase industry participation noticeably would have to be a significant innovation. Since a significant change is unlikely in the current economic and political climate, the most profitable path to encouraging partnerships probably is to address the long-term incentives that both education and industry emphasize is the reason that business supports vocational education in Indiana and across the nation.